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NORTHERN BRANCH

OFFICE OF REPORTS AND ESTIMATES

CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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NEXT REVIEW DATE: 1989  
AUTH: HR 79-2  
DATE: 20 Nov 79 REVIEWER: 006514

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NORTHERN BRANCH WEEKLY

Intelligence Summary No. 82

19 September 1949

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Office of Reports and Estimates  
Northern Branch

BRITISH DIVISION

UNITED KINGDOM

1. UK may relax embargo on LA commodities

Britain's full adherence to the agreed US-UK policy which embargoes on security grounds the shipment to eastern Europe of a substantial list of materials and manufactures, known as the LA list, is under review as a result of the failure of certain other countries to cooperate. The British appear to be taking the position that the acceptance by continental European countries of Iron Curtain orders for some LA commodities, following Britain's rejections, cuts the ground from under the embargo policy and costs the UK substantial losses in foreign trade. This position can not be refuted; it can be invalidated only by getting the agreement of other countries to uphold the embargo policy. Though representations to this end have been made regularly over many months -- by both the US and UK -- only partial agreements have so far been achieved. Many LA commodities continue to flow eastward.

In the absence of firm multilateral agreement on the embargo policy within a month or so, Britain could probably be expected to relax its controls to a limited extent. In any event, the UK would not sell the eastern European countries manufactures or military equipment which would directly enhance their military power. It would, however, begin to compete with other countries for eastern Europe's orders for certain materials, tools, and machinery which are capable of application in support of military power.

2. US-UK in general accord on Italian Colonies

Except for minor differences on the form and scheduling of Libyan independence, the US and the UK are agreed on the settlement they will urge in the UN for the Italian Colonies question. The divergences grow mainly out of the US's greater concern about obtaining GA support, while the UK, as the present administering power, puts

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greater emphasis on the probable repercussions, both in French North Africa and in Libya.

Agreeing with the US that Libyan independence should become effective within a period of two to five years, the UK nevertheless opposes mentioning a specific time limit in the GA resolution in deference to the opposition of the French, who fear trouble in their North African territories from the example of Libyan independence. The British also object to setting up a UN Advisory Council for Libya during this interim period, since any Italian participation in this Council would, in their view, stir up Arab feeling in Cyrenaica. The US view is that the GA is likely to insist on the inclusion of both these points in the final settlement.

As regards the final form of the Libyan state -- whether a loose federation or a more unified type of government -- the UK suggests that the inhabitants themselves make the decision at a later date. The British believe that until each of the separate parts (Cyrenaica, Tripoli, and the Fezzan) have had some experience in governing themselves it will be impossible to convene a truly representative constituent assembly to determine the form of government for a united Libya. The British are also probably interested in by-passing French objections to a united Libya, particularly one headed by Said Idriss.

### 3. Budget cuts anticipated by Service Departments

There are indications that the Service Departments are anticipating their share of the budget cuts which Prime Minister Attlee ordered as part of the Government economy drive. The apparent absence of any specific directive from the Ministry of Defense may be attributed to the need to await decisions concerning UK obligations under the North Atlantic Treaty and the Military Aid Program. Nevertheless, the War Office is trying to trim its estimated expenditures for the fiscal year beginning 1 April 1950 by several million pounds; the Admiralty is studying a plan to consolidate two of its major sections; while the Air Ministry is considering reductions in both its military and civilian personnel. Efforts will be made to "squeeze out the fat" in administrative sections and to leave operational staffs intact as far as possible.

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Demands for decreased defense expenditures have so far been noticeably scarce in debates and discussions of Britain's dollar crisis. This is in marked contrast to the mood prevailing two years ago when there was considerable support among left-wing Laborites for drastic cuts in the armed forces and criticism of US-UK military collaboration. It is hardly conceivable, however, that such demands would not rise again if the Services should be exempted from the general retrenchment.

### 4. Bomber Command's Exercise "Bulldog"

The primary purpose of the RAF's four-day exercise "Bulldog", which begins this week, is to examine some of the problems associated with a bomber offensive, and specifically to test the tactics of Bomber Command. Emphasis will therefore be laid on the evasion of defending forces, in contrast to exercise "Foil" last spring, which focussed on the operation of Britain's air defenses. Since Britain's first jet bomber, the Canberra, will not be operational until the end of 1951, the exercise will be conducted chiefly with the Lincoln, Britain's most advanced (but obsolescent) reciprocal-engined bomber. In addition to Bomber Command, participants will be Fighter Command, British Air Forces in Germany, Flying Training Command, Coastal Command, and probably the US Air Forces Third Air Division. The Air Ministry has announced that Dutch, French and Belgian planes will also join the maneuvers.

### 5. Effects of the Washington Economic Conference

Though the tripartite economic and financial conference at Washington appears not to have produced short-term measures sufficient to stop the drain on British reserves (unless as a result of it the International Monetary Fund decides to release to the UK the necessary dollars), its consequences may prove to be very beneficial to the western democracies. Much closer economic cooperation between the US and the UK, subject to a substantial extent to Congressional sanction, appears to be presaged. The agreed principles and lines of action hold out the promise of eventually solving the basic balance of payments problems. Politically, a harmonious atmosphere has been restored between the major western allies; Moscow can get no comfort from this. The

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US has for the time being established itself in British opinion as not anti-Labor, and as realistically accepting the responsibilities of the world's leading creditor nation.

It would be premature at this juncture to say that any of Britain's fundamental dollar problems have been overcome as a result of the conference. A gap remains between purpose and performance. It is apparent, however, that the problems are going to be attacked with greater vigor and more cooperatively than before.

#### COMMONWEALTH AND EMPIRE

##### 6. UK asks US economic participation in India

Faced with an increasingly unhealthy economic situation in India and unable to provide the needed aid itself, the UK, according to current evidence, may be forced to concede, and even urge, the entry of US capital in order to keep India viable as Asia's main indigenous force making for stability and the containment of Communist influences. As usual, a parallel policy will probably be followed for Pakistan.

The UK High Commissioner in New Delhi, speaking to the US Ambassador just prior to the US-UK Washington talks, has given some tentative UK views on the necessity for the extension of US economic assistance to India through both public loan and private investment, urging that South Asian countries not yet under Communist influence should be strengthened quickly to resist an expanding Communism. He also urged that the primary emphasis of any such program should be on expanded food production to enable India to feed itself and that major industrial projects should be discouraged unless they would directly assist agriculture.

This new approach represents a distinct modification of previous British policy, although the UK High Commissioner did not admit that his recommendations connoted any sharp change. Despite liberal treatment by the release of Indian sterling balances, India's economic troubles are too vast to be solved by Britain alone in its present financial straits. The UK is hardly in a position to give any further aid itself, and, although there is an agreement to cut down on dollar needs, it appears that India is counting on drawing even more dollars from the "sterling pool" this year than last.

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It is evident that any increased US economic activity will have a consequent weakening effect upon British pre-dominance in an area which has been treated as a British preserve since the 18th century; but the High Commissioner's economically sound recommendation that US aid be concentrated upon the expansion of food production at the expense of major industrial projects also suggests that the British will try to retain as much of their preferred position as possible.

It is clear, in any case, that the move springs from an increasing British awareness of the need for bolstering India in the face of spreading Communism in Asia.

#### Canada

##### 7. Canada's formal ties to the UK to be amended

The remaining British tie with the Canadian judicial system will be cut and nominal British control over Canada's right to amend its constitution will be further weakened if, as expected, the Canadian Parliament adopts the constitutional recommendations made on behalf of the St. Laurent Government in the Speech from the Throne opening the 21st Canadian Parliament on 15 September. One proposed measure would make the Supreme Court of Canada, and not the Judicial Committee of the Privy Council in London, the final court of appeal for Canada. The other proposal would eventually be a formal request to the Parliament at Westminster to vest in the Canadian Parliament the right to amend the Canadian constitution, which is the British North America Act of 1867, in matters not within provincial jurisdiction and not affecting basic constitutional rights with respect to education and the use of the two official languages. Despite Canada's actual independence, control in these two areas has remained in British hands up to the present largely because of the French-Canadians, who have relied since the British conquest for the protection of their privileges and rights on the impartiality of Westminster uninfluenced by Canadian politics.

In January 1947 the Privy Council ruled that the Canadian Parliament is legally entitled to declare the Supreme Court of Canada the final court of appeal, and legislation to abolish appeals to London was introduced in the Canadian Parliament early in 1949.

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Formulation of the request to the British Parliament to transfer limited constitutional amending power to Ottawa will come only after Prime Minister St. Laurent and the provincial Premiers have held a consultation on the procedure to be adopted.

The status of such formal constitutional ties is, however, not necessarily indicative of the extent to which a Dominion is willing to accept the general political leadership of the UK. Canada is at present the only Dominion which, since the passage of the Statute of Westminster, does not have full power to amend its constitution without reference to London. Appeals to the Judicial Committee of the Privy Council can, however, still be made from the highest courts of Australia, New Zealand and South Africa, though from the last they have in fact rarely been made.

#### SCANDINAVIAN DIVISION

##### General

##### 1. Scandinavia and the Council of Europe

The attitude of the Scandinavian countries toward the Council of Europe expresses unreadiness to hand over the right to decide matters affecting their daily lives to a supernational authority. The inclination is rather to look hopefully upon the Council as an important step in the direction of greater European contribution to the work of the UN. Sweden displays its usual hesitancy to undertake any commitment which might compromise its neutral stand. The Scandinavian countries can be expected to cooperate in the Council of Europe, but their efforts, rather than aggressive and original, will be of a "follow the leader" nature.

##### SWEDEN

##### 2. Reaffirmation of Swedish Neutrality

Recent statements by members of the Swedish Government indicate that Sweden will continue to adhere indefinitely to its policy of neutrality. At the recent Congress of the Interparliamentary Union in Stockholm, the Prime Minister, Tage Erlander, stated that Sweden's present foreign policy is influenced by the fact that neutrality has permitted the country to remain at peace for

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150 years. At the same Congress Östen Unden, the Foreign Minister, spiritedly defended Sweden's foreign policy against an attack by a French delegate by stating that in peacetime it aimed to forestall the suspicion that Swedish territory might be used by any great power as a military base and that in wartime it aimed to keep Sweden outside the conflict.

Nevertheless, there are indications that the neutrality policy does not enjoy unanimous support. Military leaders, particular, favor collaboration with the Western Powers. Moreover, a considerable segment of opinion, including some Conservative and Liberal party leaders, are not averse to Scandinavian military cooperation. It is quite possible that a number of Swedes believe that through cooperation with the other Scandinavian countries Sweden will be able to enjoy some of the advantages of the North Atlantic Pact, at least indirectly as they apply to northern Europe, and yet assume no greater obligations than at present. But Swedes must realize, although few will openly admit it, that military collaboration with Denmark and Norway will inevitably tie Sweden to the North Atlantic Pact.

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## SUPPLEMENT

Effects of Devaluation in Britain

The full effects in the UK of pound devaluation, both economic and political, defy confident assessment at this early juncture, though a preliminary evaluation can be made. The economic impact of the move will not be completely clear in Britain for many months, owing to the existence of large stocks of many imported raw materials and to uncertainty over the degree of increased austerity which can be maintained by the Government. The political impact turns on the skill with which the Government presents its position -- and thus holds the confidence and support of the public -- and with which the Conservatives may move to force a political crisis.

Some Economic considerations

Devaluation is but one of the steps toward the restoration of confidence in sterling and of health to the British economy. It is not by itself a lasting cure for anything: the outflow of gold and dollar reserves, the competitive trade position, or the lack of confidence in sterling. It does, however, provide the opportunity to attack these problems speedily and successfully. It provides an impetus to exports to those countries that do not devalue equally, particularly the US and Canada, since it immediately lowers prices in their currencies; it effects a decrease in imports from those countries for the opposite reason. It should lead to a return of confidence in sterling at its new value, and a reversal of the flight of capital. The major purpose of the British move is to achieve a substantial increase in the volume, and thus the value, of exports to hard currency countries. The move will have been justified if this increase reaches over some 35% above the current levels. If the increase falls much below 30% the consequences will be serious.

But devaluation raises the costs of living at home (by 5 to 10%, according to estimates). Whether the benefits of the move will be long lasting rests on the ability of the Government to resist pressures for increased subsidies, increased wages, and increased profits. These pressures will be great, as people expect the Government to protect them

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against reductions in standards of living, but any appreciable giving in to them would raise production costs and dissipate the advantages of devaluation. Sir Stafford Cripps has forthrightly come down against such pressures; how unbrokenly the line can be held remains to be seen. Trouble with organized labor seems certain. Unrest and discontent, already apparent before devaluation, will increase. How serious the disturbances will be -- beyond the stage of grumbling and scattered strikes -- is a question. There is reason, however, for modest optimism, and there is no doubt that the present Government is the best to impose the necessities on the country.

#### Some political considerations

Cripps's announcement of the devaluation of the pound comes as a shock to all but the best informed sections of British public opinion because: 1) the Chancellor frequently stated during the summer months that he opposed devaluation, and 2) in their public speeches Labor Party leaders have not sufficiently emphasized the true severity of the dollar problem or the manner in which new government policies might be expected to impinge on the individual's standard of living. Now with devaluation an accomplished fact and with Cripps frankly announcing that an increased price for bread (and other commodities) is imminent, it is plain that the Government has reversed its position and is facing up to unpleasant reality. Labor may once again gain stature in the eyes of part of the electorate for boldly stating difficulties, rather than glossing them over in order to maintain prestige; equally such a sharp reversal of policy may diminish confidence of another part in the Government.

Although it is too soon to judge the extent or the ultimate nature of the reaction to devaluation, events of the next few weeks may be of the utmost importance in determining the Labor Party's political future. At this particular time the position of the Conservative Party vis-a-vis Labor has probably improved; whether this trend persists or reaches decisive proportions will depend on the Labor Government's ability to persuade the public to accept the domestic results of devaluation and the necessity for increased austerity. Equally the Labor leaders' judgment as to their relative success or failure in the task of rapidly educating the electorate may determine whether the general election is to be held this fall or next spring. Past performance suggests that Labor

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will successfully ride the storm. However, it should be noted that storm signals are up: labor will be increasingly restive, and the Conservative Party seems preparing to exploit the issues in a new attack on the Government.

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